Pumping up for the great California gasoline war

An S&MM Special Section: Incentives for all occasions

S&MM

SALES & MARKETING MANAGEMENT

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WHAT MADE SUPERSALESMAN NICK DIBARI CALL IT QUITS?

Page 43

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APRIL 2, 1984

CONTENTS

MARKETING

24 Trademarks
The fight against unauthorized imports

24 Latino market
Speaking their language

25 An S&MM Market Highlight
A surprise in "growth" states

25 Franchising
Teach them selling

27 Packaging
A clean sweep for Libman

27 New products
Building new muscle at West Bend

30 Preview of 1984 Survey of Industrial & Commercial Buying Power

SALES STRATEGIES

32 Retraining
GTC in a brave new world

35 Manufacturers' reps
Who's minding the sales force?

FEATURES

51 Pumping up for the great California gasoline war
Atlantic Richfield says self-service is paying off. Union 76 says the same about full-service.

55 Paperboard tries a comeback in the milk market
Paper makers introduce a new gallon container. But do dairies really want to switch?

COVER: When events indicated a change, supersalesman Nick DiBari "retired" to Boca Raton. Despite all that tranquility, he still keeps active. DiBari tells S&MM why he called it quits at Comdisco. Page 43.

58 Marketers with quintessence
These products make package designers green with envy.

63 10 rules to live (and sell) by abroad
How to avoid being an innocent overseas.

68 Getting started with your PC—Part III
Advice on picking the right hardware and software and how to find a dealer who'll make a good partner.

74 Let's tuck some of it back in
Advice to marketers: Instant intimacy is out as 1960s' youngsters approach middle age.

SPECIAL SECTION

79 Incentives for all occasions

- Good times or bad, motivators rage on
- Canada Life shows good taste
- Take the risk out of incentive travel
- National Linen Service drives home a message
- Clairol bends the rules and brings in sales
- Sumicom makes a game out of making a name
- Personal Products' overnight sensation

NEWSLETTERS

40 Industrial newsletter
155 International newsletter
39 Marketing newsletter

DEPARTMENTS

159 Advertisers' index
147 Books
67 Changes in the news
132 Computer in sales & marketing
137 Cooperative advertising
36 Corporate travel
20 Demographics in action
8 Editor's call report
129 Ideas you can use
14 Jaundiced eye
12 Letters to S&MM
66 Marketers, et cetera
140 Marketing research
156 On the road
28 S&MM Predicts
19 S&MM Viewpoint
144 Sales management
158 Sales mart
160 Significant Trends
163 Worth writing for

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thing else you'll never be successful. If you're not singleminded and you're pimping to the marketplace, it won't work." He adds, "Anyone who thinks they can take any line of cosmetics and just put a picture of a Spanish lady on the top card is naive. It's like taking a suntan lotion and putting a picture of Wilt Chamberlin on it and trying to sell it to blacks. Hispanics feel they're the main market, not just a residual group, and they like you to speak their language." Indeed, respondants in the Yankelovich study noted that they resented this kind of slight as an ethnic slur and 29% of them said they felt most companies don't recognize the value of Hispanic consumers. Seventy-three percent also said they are aware that most commercials are merely dubbed for the Hispanic market.

To avoid this pitfall, Kern is using all of the $4 million allocated for advertising this year for Spanish-language media, $3.5 million of it for TV.

Plus a cologne

The first products in the line, lipstick, blush, eyeshadows, nail polish, and a still unnamed fragrance, will retail for $3–$5 for the color products and $15–$20 for a 4-oz. cologne. The lipsticks and the rest of the color articles are packaged in blister packs with the colors of the items showing through.

"We won't," he says, "use the same promotion in more than one store in a market area. If Penney wants an exclusive on a promo in a market place, others will get a different package. The line and the packaging were checked for acceptance by Kornhauser & Calene, New York City, which conducted test panels, focus groups, and intercepts. One result of the company's research is the development of an upscale line to be sold for $4–$6 in department stores. "We found," says Kern "that Hispanics are very quality conscious and they make many of their cosmetics purchases in department stores."

If Kern is wrong, he's always got another pretty face to fall back on. Skin Control System is also the brand name of the company's skincare line launched in January and endorsed by the perennial baby-faced entertainer, Dick Clark. "Wrong?" says Kern. "We're the first guys to do it right."

AN S&MM MARKET HIGHLIGHT

A surprise in 'growth' states

The fastest-growing-states category is not behaving according to forecast. As expected, Nevada, Utah, and Texas are among the five pacesetters, the U.S. Census Bureau's latest estimate shows. The three were also tabbed by *S&MM's Survey of Buying Power—Part II* (Oct. 31, 1983) as among the five that would prosper most in the period 1982–87.

But the two other states nominated by S&MM, Arizona and Wyoming, don't find equal favor at the Census Bureau, its newest estimates show. Instead, Washington has cited Alaska and Florida. The former, in fact, tops the "growth" list and the latter is ranked No. 5.

The top five . . .			. . . the bottom five		
State	% Gain 4/1/80–7/1/83	1983 Pop. (000)	State	% Loss 4/1/80–7/1/83	1983 Pop. (000)
Alaska	19.2%	479	Dist. of Columbia	−2.4%	623
Nevada	11.3	891	Michigan	−2.1	9,069
Utah	10.8	1,619	Ohio	−0.5	10,746
Texas	10.5	15,724	Iowa	−0.3	2,905
Florida	9.6	1,680	Indiana	−0.2	5,479

Source: Census Bureau, *Estimates of the Population of States: July 1, 1981 to 1983*, Series P-25, No. 944.
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FRANCHISING

Teach them selling

Knowledge of selling, rather than product, is what's needed to stay ahead of the pack in the burgeoning personal computer (PC) software market, argues Glenn Johnson, 35, chairman of Softwaire Center International (SCI), Culver City, CA.

Software-only stores will be the fastest-growing distribution outlet for office PC software, projections by, among others, Future Computing, a Richardson, TX, market researcher show. Pam Inserra, vice president for its retail analysis, says such sales will skyrocket from $51 million in 1983—"their first significant year"—to $1.4 billion in 1988.

Johnson, a former salesman in the Pacific Stereo chain, hopes to ride the boom by putting together the new industry's biggest franchising chain. He opened his first store

Softwaire's Johnson relies on a magazine-rack approach, too.

has fallen off. The regional manager has 'the big number' and if he wants to take the risk and work with an individual, it's up to him. There's no set 'you've got sixty days' or whatever.''

District and regional sales managers are paid a base salary and a commission plus bonus if their forecasts are met on a regular basis. The rewards for their salespeople: a base salary plus a commission when they meet 50% of their quota; those who meet 120% of quota have the potential to earn $180,000 annually.

As for GTC's payoff, revenues for this year will approach $45 million, 30% better than 1983's.

MANUFACTURERS' REPS

Who's minding the sales force?

Sales managers who use manufacturers' reps invariably testify that they insist that their reps manage their time efficiently. But in passing down the word about efficiency, are they actually only paying lip service to proper sales management? After all, when the Dartnell Management Research Panel recently surveyed 55 companies selling a broad range of products or services, only one in four had recently bothered to do *any* kind of time and/or motion study of their outside sales organization.

Also, the survey shows that even among managers who do check on how well their rep agencies function, there is wide disagreement on the best way to do it. Some 26% of the companies use data-processing records. ''Another company's sales operation department conducted a study over a 10-month period using sales reports and itineraries, expense reports, and a market cost study,'' the panel reports. A third respondent did a study of each territory and the rep's ''ability to effectively cover it.'' A fourth analyzed *all* activities. Even when studies indicated a need for change, three of the respondents admitted that nothing at all was done, while another ''placed an emphasis on renewed education.''

Who's in charge of supervising the reps and checking on their time management? Dartnell reports that at 37% of the companies, it is either the district or the regional managers. In almost a quarter of the others, it is the responsibility of the general sales manager; in slightly more than a quarter of the remaining companies, the job falls to a field supervisor. ''In only 13% are the individual sales reps responsibile,'' the study notes.

Dartnell's researchers also asked

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Come for the fun of it all.
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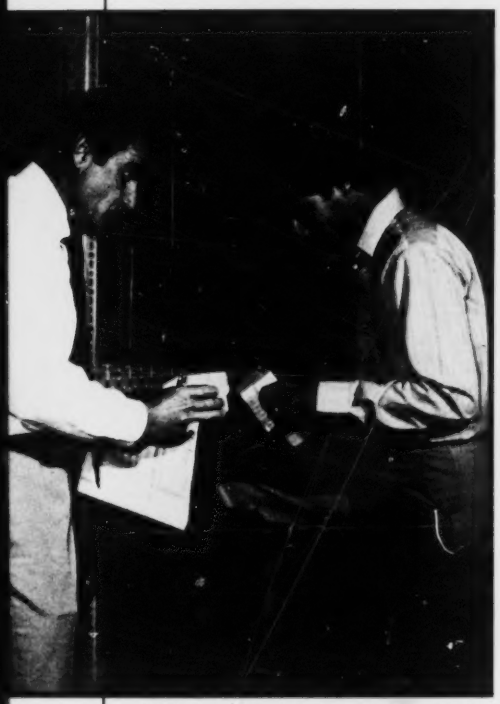
Sources of data	Replies	Daily	Weekly	Monthly	Other
Call reports	48	10	23	2	13
Advance itineraries	32	0	19	4	9
Supply orders	14	1	2	1	10
Sales reports	29	4	11	2	11
Invoices	1	0	0	0	1
Expense records	41	3	24	5	9
Auto mileage reports	35	4	14	9	8
Competitive reports	27	3	2	3	19
Follow-up reports	13	0	3	2	8
Time reports	7	0	0	0	1
Individual prospect analyses	18	3	1	1	13

Source: Dartnell Corp., as quoted in *How to Plan and Manage Sales Territories Effectively* by Charles C. Schlom



He's on the job: Rick Overstake (l.), a Denver rep, with customer Rich Willis of Elliott Electric.

about the types of reports the companies ask their reps to submit to them and how often. The results are shown on the preceding page.

One trend in using manufacturers' reps—that marketers that use them are adding to the range of responsibilities assigned them—is borne out by the survey. Duties beyond making the actual sale now commonly include servicing, merchandising, good will, collection, troubleshooting, inventory, reporting on the competition, and overdue accounts, the survey shows. Reps may also perform product positioning, quality control and delivery; do prospecting, recruiting, market analysis, and installation coordination; educate store clerks, and be at trade shows and conventions. Indeed, fully 70% of the companies surveyed either encourage or ask their reps to spend their own time on the job. "Part of the problem of managing reps' time is the amount of other duties the reps must perform," the Dartnell panel concludes.

Corporate Travel®

Cut costs with agent rebates

Air travel rebates from your travel agent can help reduce T&E expenses. Almost 40% of U.S. companies receive such rebates, either as discounts on airline tickets or as a percentage of the agent's income from bookings. The agents themselves receive a 10% commission from the airlines; those who give client companies rebates give an average of 3.1%. Those figures come from a survey of 92 travel managers conducted by Runzheimer & Co., a Rochester, WI–based management consulting company specializing in travel and living costs. Rebates are often reimbursement for services handled by the company's own corporate travel department; for example, a company may make its own airline reservations and the travel agent simply provides the ticket. Or, if a company gives an agent a great deal of business, the agent may give the company some form of rebate in order to keep that business. Companies with travel budgets of less than $500,000 seldom receive rebates from travel agents, the study shows.

But a Runzheimer spokeswoman urges caution: if your agent has not been giving your company rebates, and you request them, you risk jeopardizing the relationship. If you do not have a company travel agent, however, or are thinking of making a change, find out about the rebate policies of the agents you're evaluating. An agent that really wants your business may be willing to bargain.

Inter-Continental offers free flights

Aiming at business travellers, who account for 65% of the chain's worldwide occupancy, Inter-Continental Hotels offers a free round-trip coach ticket to Europe on Pan American World Airways to those who stay a total of five nights at the Houston Inter-Continental between now and Sept. 15; the flights may be taken between Oct. 1, 1984, and June 1, 1985. Flights leave from 6 U.S. cities, and there's a choice of 16 European destinations. Charge your Houston stay on the American Express Card and you'll also get a 25% discount at the Inter-Continental hotel in any of those European cities. To participate in this "Houston Plus" promotion, request a membership card—numbered and nontransferrable—when you check in at the Houston Inter-Continental (5150 Westheimer, at Sage; 713-961-5102). You must pay the regular room rate, $110 single; for a total of $550 in room costs, you get an air ticket worth $1,100 or more (the regular business class rate).

By Rayna Skolnik, Senior Editor

When recovery blesses your company, it's time to cut down on incentives, right? Not so, say motivational-minded survey respondents.

GOOD TIMES OR BAD, MOTIVATORS RAGE ON

By AL URBANSKI
Managing Editor

The textbook rule on sales incentives states that marketers should spend more on them in hard economic times, when the device is most needed to maximize sales and hold on to market share. But, judging from the results of a recent S&MM reader survey, few sales and marketing executives put much stock in textbooks.

Although the majority of respondents say they expect their businesses to fare better in 1984 than last year, 57% say they still intended to *increase* incentive budgets. This represents a rise of 6 percentage points over those who said they would up expenditures in 1983, and, what's more, a solid 25% of this year's sampling say the increases will top 20%. Only 4% plan budget decreases for 1984.

"Periods of recovery give you the greatest opportunity for growth," writes a sales manager for a western fabric distributor. "We will put increased emphasis on employee and customer incentives as a tool for maximizing potential growth." Another says, "New opportunities for growth are now available to us, and that growth can be directed by incentives." Still another says that increased sales at his company have allowed him to start incentive programs again after a two-year layoff.

Mailed to 1,500 subscribers in January, S&MM's exclusive survey of incentive usage explores the reasons why sales and marketing managers will—or will not—use incentive programs this year. The survey also asked readers to tell the types of awards they offer, why they have the programs in the first place, who in their organizations are eligible to receive awards for improved performance, and whether they use sales force recognition programs. The statistics quoted in this article and the accompanying tables are based on 313 replies received by the cutoff date.

Why is there an increase in incentive spending during a recovery period? One surprising finding seems to point directly to the answer. When asked to list their reasons for running incentive programs, 64% of respondents said it was to "achieve long-range sales gains" as compared to 54% who gave that as a reason last year. As money begins flowing back into their businesses, there is less pressure on marketers to score quick, short-term sales gains.

They now have the luxury of looking farther ahead, and so are spending incentive dollars on more expensive contests that may run for three quarters instead of one. "Last year, we ran a couple of two-month promotions to put some strength behind a few products that weren't doing well," writes a marketing director for a midwestern consumer products company. "This year we're able to afford a travel program to Rio that should have our

Travel to such places as Rio increases as managers lengthen contests.

A. Survey results: The big picture

(Base: 313 replies)

1. Will your company or division offer merchandise, travel, cash, or other incentives (not including commissions) to your own or to outside salespeople this year?

Yes	63.6%
No	36.4

2. Does your company or division have a formal recognition program for top salespeople, such as a president's club or salesperson of the year award?

Yes	39.6%
No	60.4

3. Your line of business?

Industrial	42.8%
Consumer	26.8
Services	24.9
Distribution	7.9

4. Your annual sales?

$10 million or less	28.7%
$11–$25 million	17.8
$26–$50 million	9.2
$51–$100 million	11.5
$101–$500 million	19.1
$501 million or more	7.6

B. Incentive users and their plans for 1984

(Base: 199 replies)

1. Do you plan to increase or decrease the number of merchandise, travel, or cash incentive programs you offered last year?

Increase	47.7%
Stay the same	40.7
Decrease	2.5
Did not offer one last year	10.0

2. What is your approximate 1984 budget for incentive programs?

$4,999 or less	12.0%
$5,000–$9,999	11.5
$10,000–$24,999	14.5
$25,000–$49,999	11.5
$50,000–$99,999	15.0
$100,000–$249,999	14.5
$250,000–$499,999	7.0
$500,000–$999,999	5.0
$1 million or more	4.0

3. How does your 1984 budget compare with your 1983 budget?

Total increases	57.1%
Up 9% or less	16.0
Up 10%–19%	16.0
Up 20% or more	25.1
Stays the same	34.1
Decreases	4.0

4. To whom will you offer incentive programs?

Own field salespeople	76.8%
Field sales managers	38.1
Own inside salespeople	25.1
Reps, brokers, or other outside agents	24.6
Distributor salespeople	21.6
Other	6.5

5. What awards will you give?

Cash	66.8%
Merchandise	57.7
Travel	53.2
Noncash only	29.6
Cash only	18.0
Cash plus noncash	46.7

6. What reasons do you have for running an incentive program?

Achieve immediate sales gains	74.3%
Achieve long-range sales gains	64.3
Focus attention on specific products	51.2
Improve sales force morale	51.2
Sales force expects it	9.5
Forced to by competition	5.0
Other	4.0

7. Does your company or division have a formal recognition program for top salespeople?

Yes	54.3%
No	45.7

8. Your line of business?

Industrial	36.6%
Consumer	29.1
Services	27.1
Distribution	11.5

9. Your annual sales?

$10 million or less	27.6%
$11–$25 million	17.5
$26–$50 million	8.5
$51–$100 million	14.0
$101–$500 million	18.0
$501 million or more	8.5

Percentages may total more or less than 100 because of multiple answers and no answers

C.

Non-users and their future incentive plans

(Base: 114 replies)

1. Why won't you use merchandise, travel, or special cash incentives in 1984?

We don't feel they are necessary	45.6%
Against company policy	17.5
Tried them and they didn't accomplish our objectives	14.0
Too costly	12.2
Too time consuming	12.2
We feel they are unfair	2.6
Our salespeople don't like them	1.7
Other	13.1

2. Has your company or division used any merchandise, travel, or cash incentives in the last three years?

Yes	34.2%
No	63.1

3. Do you plan to offer such incentives in the future?

Yes	2.6%
No	38.5
Maybe	55.2

4. Does your company or division have a formal recognition program for top salespeople?

Yes	14.0%
No	86.0

5. Your line of business?

Industrial	53.5%
Consumer	22.8
Services	21.0
Distribution	1.7

6. Your annual sales?

$10 million or less	30.7%
$11–$25 million	18.4
$26–$50 million	10.5
$51–$100 million	7.0
$101–$500 million	21.0
$501 million or more	6.1

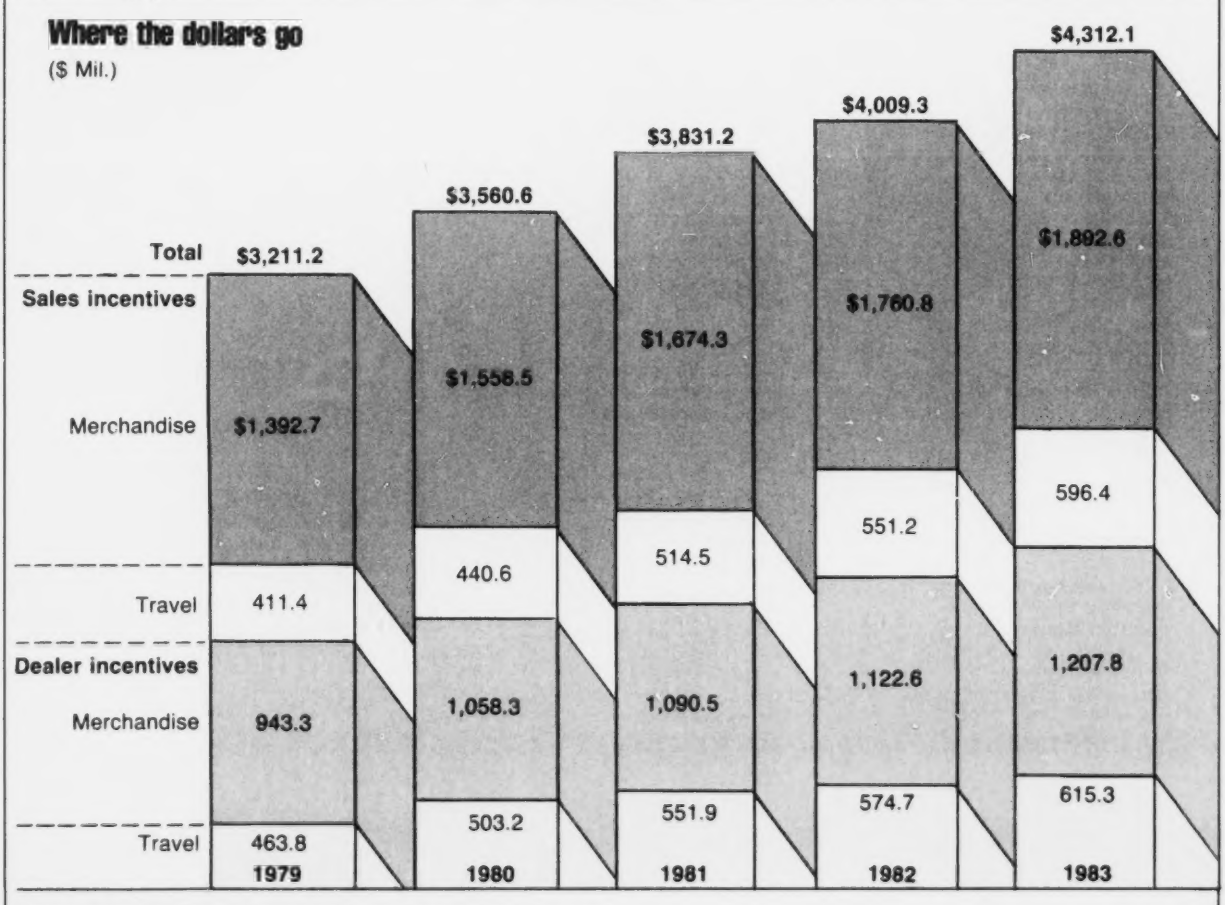
guys out busting their butts for eight months, selling the whole line."

Some sales pros have other reasons for upping incentives. One, who offers his salespeople an all-cash program, says that their pay would be too low without incentives. He is not alone among executives who simply view incentives as another form of compensation. The vice president of an Iowa jewelry company writes that his half-cash, half-merchandise incentive plan is "part of an overall compensation commensurate with a performance program that includes salary, cash, bonus, profit sharing, and education expenses."

Of course, not all marketers are shoveling increased profits into bigger and better incentive programs. Some still adhere to the textbook. "We spent $160,000 for a Hawaii trip in 1983," writes one anonymous respondent. "In 1984, with the recovery, we plan to spend less because sales growth is being achieved." A sales manager for a health-care company is more terse: "We have found that incentives have more value in hard economic times."

More companies are apparently investing profits in sales force recognition programs, top performer honors which go by various names: President's Club, Rookie of the Year, the Emerald Ring Society. Only 44% of incentive users responding to last year's survey said they would concurrently run a recognition program, but this year 54% say they will do so. By contrast, only 14% of respondents who have no incentive plans for 1984 will offer recognition programs, showing, perhaps, that when you're a motivator it's all or nothing.

Incentive plans for 1984 show some flux in the types of prizes winners will receive. Fewer marketers will offer merchandise (58% vs. 62% in 1983) or cash (67% vs. 74%), but more will use travel. Since travel programs are usually more expensive than their merchandise and cash counterparts, the fact that 53% of this year's sampling will be whisking salespeople off to exotic destinations compared to 49% last year lends a little more weight to the argument that long-term incentive contests are on the



Figures exclude program promotion costs and the cost of cash and recognition awards.
Source: *Incentive Marketing*, February 1984

rise. There are other reasons for flying with travel programs, to be sure. "The percentage of time I hear people talk of travel for pleasure during business trips astounds me," says an industrial marketing vice president who is putting his entire incentive budget into travel. "So why not have them do this planning within a plan that benefits the company?"

S&MM's survey also points to a definite trend away from mixing cash with noncash incentives in a single promotion. While it is still very popular, only 47% of respondents intend to mix and match this year, an 8 percentage point dip. The beneficiaries of this swing will be merchandise manufacturers and travel agents, it appears. About 30% of incentive planners will award noncash prizes only vs. 22% in 1983. Cash-only awards, meanwhile, hold steady at 18%, though 67% of respondents plan to offer at least some greenbacks in their programs.

There is more to running an incentive program than just selecting prizes, however. Planners must also develop contest themes, design and produce motivational mailings, and, of course, devise a system for keeping track of points and winners. Surprisingly, the great majority of S&MM readers who answered the survey, some 65%, say they handle all these duties in-house. Those who do seek outside help (7% more than last year) go most often to premium and incentive reps (66%), catalogue companies (35%), and ad promotion agencies (26%). Many also indicate turning to travel agencies.

Who uses incentive programs? This year's survey provides no clear answer to that question, positioning incentives as a somewhat universal sales tool. Company size doesn't seem to make much difference. Incentives are used by 71% of companies with sales of $501 million or more, 78% of businesses showing $51 to $100 million in sales, and 61% of small companies with sales of $10 million or less.

'Now our company has made a regular practice of incentivizing nonsales employees and management; this, too, seems to be working very well.'

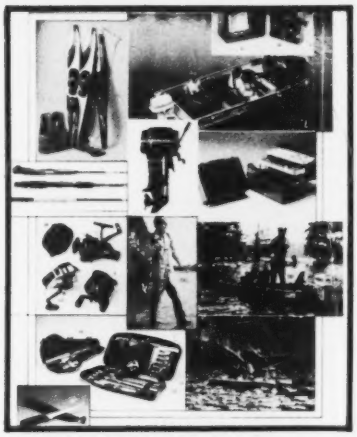
As usual, incentives are popular with consumer goods companies, 69% of which will sponsor programs in 1984. A large increase in contests is seen among service companies. More than 69% of them have incentive plans for this year, as opposed to 55% last year. "For many years, we have offered premiums to customers," writes an executive vice president of a southern bank, "but we never gave our own employees any incentives. Now we do, and we've found that 'push' works as well as 'pull.' "

Things haven't changed much when it comes to determining who will be on the receiving end of all those TVs, plane tickets, and checks. More than three-quarters of all incentive payouts will go to field salespeople, and 38% of respondents say that field sales managers will also be cut in on the loot. More reps, brokers, and other outside agents will be eligible for extra payouts this year, however. Nearly 25% of sales execs say they'll try to motivate their shadow sales forces in 1984 vs. 20% in 1983. Some sales managers have become so taken by the power of incentives that they've spread the word to other departments in the company. "We've had a string of successes with contests for our sales force," writes one respondent. "Now our company has made a regular practice of incentivizing nonsales employees and management. This, too, seems to be working well."

Not everyone is entranced with sales incentives, however. This year's sampling of nonusers, in fact, seems more convinced of their ineffectiveness than any other survey group of recent years. Though 34% of nonuser respondents say they have run incentive programs within the last three years, only 3% say they definitely intend to use them again in the future. A resounding 46% of this group feel incentives simply aren't necessary compared to only 28% who said they felt that way last year. Other major reasons given for mixing incentives were: "Against company policy,"

and, "Tried them and they didn't accomplish our objectives." Says a national sales manager for a heavy equipment manufacturer: "Our 'directs' are on 50% commission, which can add up to a lot of bucks. If that isn't enough incentive for them to get out and sell, then I don't know what is."

Nevertheless, more than 55% of current nonusers say they haven't made up their minds about using incentives sometime; many note that their companies are new or their sales forces too small to justify the expense. Companies that do not use incentives tend to be small industrial concerns. About 31% of sales and marketing executives who say they have no incentive plans work for companies with sales of $10 million or less. Yet there appear to be some incentive defectors at larger companies as well. Companies with sales between $100 million and $500 million make up 21% of this year's nonuser sample vs. only 8% in 1983. As was the case last year, more than half of the respondents who say they shun incentives are from industrial companies.



Travel is hot, but more managers motivate with merchandise.

Not all sales managers who shy away from incentives do so because they are totally opposed to them. "I've used incentives before in another job and got great results," writes a sales vice president who sells through distributors. "I tried them again here and nothing! I don't think anything will motivate these distributors." Hard luck also extends to the front office. A southern sales and marketing director writes that he's been trying to get the company president to approve an incentive campaign for three years with no success. "I'm still hoping," he signs off.

Then there are the incentive converts, who, like religious ones, are often the most devout believers. The following note comes from an industrial marketing executive embarked on his first motivational crusade: "I am responding to this survey as one who has never used formal incentive programs before, but as someone who is amazed that they are so effective in getting people to reach down and really try harder."

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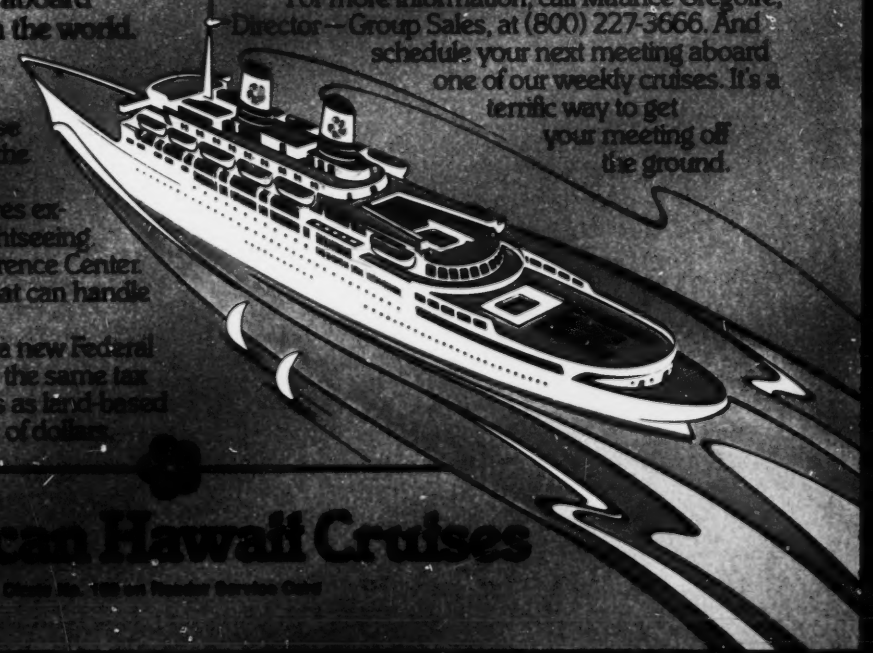

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A rush to punish in liability

An election year surprise in Washington is the sudden—and perhaps fleeting—momentum being generated by a Senate bill to govern civil actions against sellers for product liability. At a time when controversial legislation is routinely sidelined, a Senate subcommittee is expected to vote on a measure pushed by businesses but opposed by lawyers and consumer groups.

The bill, sponsored by Sen. Robert Kasten (R.-WI), assigns liability to the party at fault for loss or damage caused by a product, such as manufacturers for defective design, sellers for mishandling or misrepresenting it, and even consumers for misuse. It would supersede conflicting state laws that can unfairly hold sellers responsible for mishaps. The measure (S.44) has undergone a recent revision to meet the complaints of some detractors. For example, victims now would be awarded compensatory but not punitive damages—the latter would go to a charity or other cause for the "public good."

Treated peripherally by the bill is a marketer's liability for unwittingly selling a counterfeit product that causes injury. Once again, the fault resides with the guilty party. But in cases where the "pirate" can't be found, the seller is stuck. Similarly, a wholesaler might be held liable if the illicit manufacturer has gone out of business, or when he is the sole importer of goods where the maker has no U.S. assets.

Proponents' strategy calls for this game plan: passage this spring by the Commerce Committee, maybe even the full Senate, then on to the House in 1985.

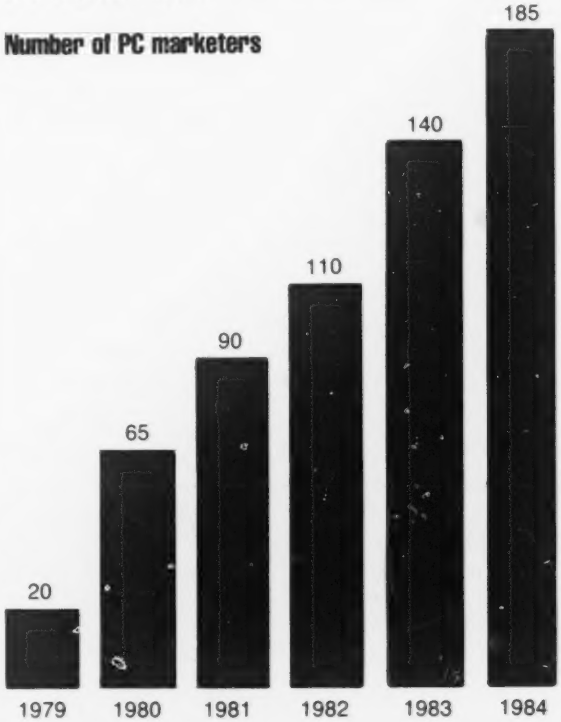
Forget about a PC shakeout

Defying the many predictions of a shakeout made over the past two years, the number of personal computer (PC) marketers continues to expand. In fact, despite the bankruptcies littering the field—Obsorne, Victor, Computer Devices—the onrush of contenders is accelerating, and estimates now put their number at 185. That's 32% more than a year ago, the latest survey by International Data Corp. (IDC), Farmingham, MA, a market researcher, shows. And that tops the 27% increase in the 1982–83 period. What's luring the entrants is the vast size of the market. With PC prices ranging from $50 to $10,000, shipments last year totalled $8.5 billion, IDC reports, as the installed base doubled from 4,464,000 to 9,104,000.

If anything, the industry is going through a shakeup rather than a shakeout, Aaron Goldberg, IDC's research manager, told clients at the company's annual briefing last month. A shakeout, he said, "is characterized by stagnant or negative growth, little technological innovation, and market maturity. The PC market has none of these." Even the publicized bankruptcies, he said, "were management failures and not PC-related."

As the competition heats up, the industry will see weeded out those that don't have marketing or financial strength as well as the one-product companies that don't move to the next generation. Marketing will be critical, Goldberg said, "because consumers are taking over, and only eight to twelve percent of the potential market is computer-literate. Financial strength will also be important because typical capitalization levels of start-ups has gone from $10 to $20 million to $40 to $100 million."

Number of PC marketers



Source: International Data Corp.
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